Postal Regulatory Commission
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Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268

Statutory Review of the	:	
System for Regulating	:	Docket No. RM2017-3
Rates and Classes for	:	
Market Dominant Products	:	

EXPLANATION OF OPTIONS
FOR A FINANCIALLY STABLE POSTAL SYSTEM

The undersigned parties believe that the excessive expansion of Postal Service rate authority, proposed in Order No. 5337, is not just a risky bet, but an unnecessary one. The Commission's remedy seeks to resolve all of the Postal Service's financial difficulties through much higher rates. This is to make Postal Service customers responsible for financial woes they did not cause. In the long run, the losses in volume (to say nothing of mailer trust and confidence) will erode the customer base of the Postal Service, outweighing any incremental revenues it might gain at the very outset. It would be in worse shape than it is in today, with fewer options to solve its problems. Such an irreversible move at precisely the time new leadership is being sought by a brand-new Board of Governors is not only ill-considered, it significantly limits future options of new postal leadership.

A rate system that sacrifices volume in favor of revenue is not sustainable – particularly given the readily available, and more market driven, alternatives for many Postal Service customers. But importantly, it is not the only available option. Universal service has substantial fixed costs. If excessive rates drive down volume, these costs must be covered by fewer mailpieces – leading to ever higher rates – and still fewer pieces. The signatory parties sincerely fear the Commission proposal dooms the Service, and some mail customers and stakeholders, to an irreversible death spiral. It does not have to be this way.

Effective legislative remedies. The legislation pending before the last several Congresses approaches the financial challenges of the Postal Service on the basis of a balanced burden on all of the stakeholders through a combination of reforms to Postal Service retiree benefit and pension funding limits, a reasonable and affordable rate increase, and restructuring of Postal Service management and governance practices. Other bills would allow the Postal Service to invest existing assets in carefully managed private investment funds providing a greater return, at levels more common in the marketplace. This approach continues to have broad stakeholder support. While other more limited bills would eliminate the 2006 prefunding requirement that has driven much of the Postal Services' financial liabilities and would also be beneficial, solutions that balance the burden across all stakeholder groups offer the best prospect for success.

While successfully passing any legislation into law in this environment is a challenge, the unprecedented and historic alignment of all stakeholder groups is a relatively new development, and has united members of widely differing political philosophies. It should be given a greater chance to succeed before options are selected that make such a balanced legislative solution, such as was enshrined in H.R. 756 in the 115th Congress, unworkable from a practical standpoint. Unified legislative support for sensible reforms would be less likely if massive mail volume losses make only draconian solutions feasible.

The public-support option. Congress should also consider whether we have reached the point where the public benefit of the Postal Service justifies some support through a direct subsidy. Numerous analyses have shown that the Postal Service has substantially overpaid its obligations to federal pensions systems. Moreover, the value the Postal Service provides in helping in the recovery of areas of the country impacted by natural disasters and the benefit it provides to national security as a backup personal communication system in the event of a prolonged disruption in Internet service is by no means negligible. The Postal Service is the only contact many Americans have with their national government – often the first one Americans see following an emergency –

and is repeatedly named as the most trusted government agency, including a recent brand reputation study where consumers ranked the Postal Service highest among all major U.S. brands, at 90 percent approval, reflecting a continuation of its persistent high brand equity scores. The Postal Service is a vital part of the nation's infrastructure and merits consideration for direct support from federal tax revenues. This was recognized when the first Postal Reorganization Act was passed in 1970; there were public service appropriations for a dozen years thereafter. Public support of this Constitutionally-guaranteed government service is also evident through its history before 1970. One possibility for use of such funds might be to directly support universal service.

Opportunities for operational savings. Beyond legislation, there are other proposals available that would have profound impacts on Postal Service costs. The 2018 Presidential Task Force report set forth a number of recommendations that would significantly reduce the costs of the public postal system. Other proposals in recent years to rely on greater use of private sector providers for mail processing could provide significant savings. Incorporation of greater centralized delivery locations, wherever practical, could also generate new and beneficial efficiencies. While all of these options may involve political obstacles, an approach that adopts the same balance between interests in the consensus legislation provides a model for more comprehensive structural reforms.

Help through expanded services. It is also valuable to consider the opportunity for the Postal Service to provide expanded services that complement the needs of a 21st Century economy. While the Postal Service's role in sustaining the expansion of e-commerce is vital, as policy makers contemplate the challenge of closing the digital divide, the Postal Service could be part of the solution through expanded electronic services to supplement physical delivery. New technologies offer the prospect of quickly linking electronic communication to physical delivery and are under development. The Postal Service provides the capacity for ground truth validation of remote sensing observations. It might also be used to deploy new generations of technology in telecommunications, privacy validation, civil defense and other nationwide deployments beyond the reach of any other institution, public or private. None of these opportunities can be realized, however, if the Postal Service's volume base is destroyed through excessively high rates.

Why the proposed rate authority would hamper real reform. It is recognized that the path to enacting legislation or affecting any of the other options is difficult and the timing uncertain; however, implementing the proposed rate setting system will not incentivize Congress or other policy makers to act more swiftly and could even forestall activity on legislation and innovation. Such a delay will reduce the value of the proposed reforms and degrade the customer base so as to render any benefit of the legislation or structural reforms implemented later moot.

Conclusion. While the Commission's concern for the financial sustainability of the US Postal Service is warranted and appropriate, forcing options now that forestall so many other alternatives is not in the best interest of the American public. The money "owed" by the Postal Service is at its heart money owed by one federal entity to another. This is money the government owes to itself. As might be expected when the liability is to oneself, no wholesale dislocation of jobs or services, and no disruption of mail delivery, has occurred. After years of postal red ink and narrow liquidity, the Commission's imposed rate increases are the wrong approach, especially when the downside is so great and better options may be embraced. This is even more the case when a new group of Governors, and shortly a new Postmaster General, can bring fresh eyes and differing experiences to what those options might be.

Therefore, we respectfully urge the Commission to proceed with caution and allow further progress to be made towards a balanced long-term solution for the Service.

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Respectfully submitted,

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